



DEPUTY UNDER SECRETARY OF DEFENSE FOR  
LOGISTICS AND MATERIEL READINESS  
3500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3500

MAR 6 2003

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Implementing the Future Logistics Enterprise End-to-End Customer Support

We acknowledge and applaud your continuing efforts to provide consistent, reliable logistics support to meet warfighter requirements by implementing the Future Logistics Enterprise (FLE). Transforming logistics to meet this objective requires that we realign key roles and responsibilities to ensure total end-to-end (E2E) warfighter support, from requirements planning to acquisition through distribution and on to the ultimate customer. The DoD Component sources of supply—whether they are weapon system Program Managers (PMs) executing Performance Based Logistics support contracts, commodity Executive Agents, or traditional Defense Logistics Agency (DLA)/Military Service materiel commands—must assume full responsibility for satisfying the warfighter's requirements, regardless of what entities are executing the extended supply chain. In keeping with best supply chain practices, agreements between the DoD Component sources of supply and their customers must be negotiated in order to set mutually agreed-upon expectations.

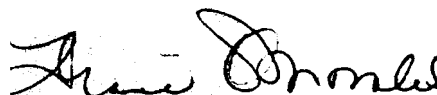
Implementation of this customer-focused supply chain strategy requires that the DoD Component sources of supply collaborate with their warfighter customers, e.g. the force providers, the Combatant Commands, and the Service components of those commands, to plan and determine optimal supply chain strategies tailored to meet your customers' needs and expectations. These realistic support expectations should be codified in performance based agreements (PBA) negotiated between the DoD Component sources of supply and the customer at the major command level. PBAs must factor in the potential for deployed operations and increased operational tempos, including physical distribution variations that must be structured for austere locations. The support requirements codified in the PBAs will serve as the basis for warfighter sustainment support in operational plans. We must implement this customer-focused warfighter support as a basic strategy across our supply chain operations, along with the discipline of codifying performance expectations in formal agreements with customers.

Fulfillment agents that execute portions of the supply chain, such as vendors, DLA or commercial distribution depots, and U.S. Transportation Command (USTRANSCOM) or commercial transportation providers external to USTRANSCOM contracts, must be party to the initial collaboration and the agreement to ensure that customer support expectations can be met. Attachment 1 contains general guidance for structuring/executing PBAs and Attachment 2 contains a list of definitions. We are developing a general template for Performance Based Agreements under the aegis of the Best Business Practices Group and will provide that for your use in the Enterprise Integration Toolkit by April 15, 2003.



The DoD Component sources of supply are key to institutionalizing this end-to-end customer-focused supply chain strategy. I ask that each addressee provide me with an overall plan for implementing this customer support strategy by May 31, 2003. Your plan should reflect how your DoD Component sources of supply will execute this collaborative process to implement PBAs with customers. To jump-start the process, your plan should identify the first three PBAs that you plan to implement during FY03. My staff will work closely with your POCs on implementation of this important concept. Concurrently, in the upcoming revision of DoD 4140.1R, we are including policy direction regarding the need for DoD Component sources of supply to engage in customer-focused supply chain management and the use of PBAs. The revised regulation is scheduled for publication in June 2003.

Again, I thank you and your staff for the effort, commitment, and support to implement the Future Logistics Enterprise for the Department of Defense.



Diane K. Morales

Attachments:

As stated

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## **Attachment 1 - Performance Based Agreements (PBAs)**

The Performance Based Agreement (PBA) process is the framework for creating and sustaining end-to-end customer support and begins with collaborative, direct negotiations between DoD Component sources of supply and their customers. The DoD Component sources of supply include Executive Agents at the DLA/Military Service commands for supply chain commodity support. The customers include Service Component counterparts within Theater Combatant Commands around the world as well as major DoD claimants in CONUS, such as USJFCOM and USNORTHCOM and their assigned forces, depot repair facilities, etc. The fulfillment agents are the distribution centers and the transportation service providers, both DoD organic/contracted and commercial.

It is understood that the nature of these agreements may change as the process matures. The intent of this initial guidance is to establish an environment in which the PBA becomes a structured tool for setting mutually agreeable expectations and measuring how effectively those expectations are being met. Below is a basic set of criteria to guide development of a PBA:

### **Objectives and Scope**

PBAs between DoD Component sources of supply and their customers are used to establish measurable service and performance level parameters in support of customer requirements. The collaborative communication process is the means to set mutual expectations for the level of support and the means by which they will be acquired. The scope of the PBA will vary in terms of service and performance parameters based upon the support scenario.

### **Content**

Pending overall guidance and policy, the designated DoD Component source of supply will tailor the content of a PBA to best meet the needs of the customer. Eventually, best practices and continued analysis will generate consistent format and content.

### **Roles & Responsibilities**

The PBA stakeholders have differing roles and responsibilities within the DoD components' corporate decision-making processes. Supply Chain support levels and weapons system readiness requirements are derived from combatant commanders' defined capability requirements. Roles and responsibilities should be clearly delineated in each individual PBA plan so that each stakeholder clearly understands the performance level to which they've subscribed.

### **Performance Measures**

A key addition to the Future Logistics Enterprise (FLE) End to End (E2E) Customer Support initiative entails an expanded look at the total Supply Chain. The Supply Chain Operational Reference (SCOR) Model is the preferred methodology to follow when undertaking inclusive supply chain performance agreements. SCOR is composed of five distinct processes:

Planning, Sourcing, Making, Delivering and Returning. These processes are bracketed by our relationships with our customers and suppliers.

#### Revisions and Flexibility

PBAs must be flexible. During financial execution years, despite well-developed plans and proactive budgeting, there are inevitable adjustments and reprioritization of customer operational requirements precipitated by unforeseen contingencies. Flexibility is an important attribute.

#### Accountability and Oversight

The PBA must include explicit accountability for all parties.

#### Existing Agreements

Prior to entering a PBA, all parties agree to review any/all existing agreements to ensure there is no conflict between existing active agreements and a pending supply chain support proposal.

#### Contingency Agreements

PBAs must include provisions for modifications that would apply under agreed-upon circumstances or situations identified in this section. This would include clauses that would be activated as a result of deployment or emergency situations as well as changes in terms based upon other non-mission related contingencies. Any supply chain support offering, performance measure and/or performance target that is not part of the original agreement will be discussed and documented, identifying the conditions under which the provision may be modified or suspended.

#### Execution of Agreement

A DoD Integrated Customer Support Team (ICST) comprised of various supply chain Subject Matter Experts (SMEs) may be established to assist with establishment of parameters for the PBA and subsequent review of the execution of the PBA. The responsible individual designated by the Military Service Command/Organization will identify which SMEs best comprise the ICST to arrive at the recommendations to attain the specific PBA requirements. The ICST members will assist in the identification of processes and detail the level of effort required by each segment of the supply chain.

## Attachment 2 – End-to-End Customer Support Definitions

The following definitions apply as they relate to Performance Based Agreements.

Term	Definition
Collaboration	Two or more parties working together to achieve a common set of goals and objectives
Customers	Entity that is accountable for and manages the requirements and the associated funding required to provide materiel, services or information (e.g. negotiates level of service) for consumer, e.g. DoD Major Theater Component Command representatives, depot repair facilities, etc.
Demand Planning	<p>The process of identifying, aggregating, and prioritizing all sources of demand for the integrated supply chain of a product or service at the appropriate level, horizon and interval (Source: Council of Logistics Management).</p> <p>At the combatant command level, it includes force deployment planning and the harmonization of supply chain and forces in the overall demand plan.</p>
Fulfilment Agent	Physically performs the required activities of the logistics chain, e.g. commercial and organic transportation providers, distribution centers, vendors, third party providers of any logistics functions
Performance Based Agreement (PBA)	A written agreement between the DoD Component Source of Supply and the customer that describes measurable service and performance level parameters based on customer requirements and expectations
Source of Supply (SoS)	The DoD Component entity ultimately responsible for providing overall customer support; ensures level of customer support documented in Performance Based Agreement is satisfied
Supply Planning	The process of identifying, prioritizing, and aggregating, as a whole with constituent parts, all sources of supply [external to DoD] that are required and add value in the supply chain of a product or service at the appropriate level, horizon and interval (Source: Council of Logistics Management)